

ALASKA STATE LEGISLATURE
LEGISLATIVE BUDGET AND AUDIT COMMITTEE
Anchorage, Alaska
December 6, 2005
2:02 p.m.

MEMBERS PRESENT

Senator Gene Therriault, Chair
Representative Ralph Samuels, Vice Chair
Senator Ben Stevens
Senator Bert Stedman (via teleconference)
Senator Lyda Green
Senator Lyman Hoffman (via teleconference)
Representative Mike Chenault (via teleconference)
Representative Mike Hawker
Senator Gary Wilken, alternate (via teleconference)
Representative Reggie Joule, alternate

MEMBERS ABSENT

Representative Pete Kott
Representative Beth Kerttula
Representative Kevin Meyer, alternate

COMMITTEE CALENDAR

APPROVAL OF MINUTES
REVISED PROGRAM - LEGISLATIVE (RPLs)
EXECUTIVE SESSION
RELEASE OF AUDITS
OVERVIEW OF PERMANENT FUND CORPORATION REGULATIONS
DNR NAVIGABLE WATERS RSA
FOSLER LAW GROUP CONTRACT
OTHER BUSINESS

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

JANET CLARKE, Assistant Commissioner
Finance and Management Services
Department of Health and Social Services
Juneau, Alaska
POSITION STATEMENT: Discussed RPL 06-06-0264.

CRISTY WILLER, Director
Division of Behavioral Health
Department of Health and Social Services
Juneau, Alaska

POSITION STATEMENT: Answered questions regarding RPL 06-06-0264.

JERRY LEWANSKIE, Superintendent
Chugach State Park
Division of Parks & Outdoor Recreation
Department of Natural Resources (DNR)
Indian, Alaska

POSITION STATEMENT: Explained RPL 10-06-5035.

ANNA KIM, Legislative Fiscal Analyst
Legislative Finance Division
Juneau, Alaska

POSITION STATEMENT: During discussion of RPL 10-06-5035, answered questions.

MICHAEL BURNS, Executive Director
Alaska Permanent Fund Corporation
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Provided an overview of the Alaska Permanent Fund Corporation regulations.

JOE BALASH, Staff
to Senator Therriault
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Provided an overview of the Department of Natural Resources' navigable waters RSA.

DICK MYLIUS, Acting Director
Division of Mining, Land and Water
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Provided information regarding the Department of Natural Resources' navigable waters RSA.

PAT DAVIDSON, Legislative Auditor
Division of Legislative Audit
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Provided information on the audit request regarding the Fairbanks Economic Development Corporation.

REPRESENTATIVE DAVID GUTTENBERG

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Responded to questions during discussion of other business.

ACTION NARRATIVE

CHAIR GENE THERRIAULT called the Legislative Budget and Audit Committee meeting to order at [2:02:19 PM](#). Senators Therriault, Ben Stevens, Hoffman (via teleconference), Green, and Wilken (via teleconference), and Representatives Samuels, Chenault (via teleconference), Hawker, and Joule were present at the call to order. Senator Stedman (via teleconference) arrived as the meeting was in progress.

APPROVAL OF MINUTES

[2:02:19 PM](#)

REPRESENTATIVE SAMUELS made a motion to approve the minutes of the November 4, 2005 meeting. There being no objection, it was so ordered.

REVISED PROGRAM - LEGISLATIVE (RPLs)

[2:03:48 PM](#)

CHAIR THERRIAULT announced that the next order of business would be the following RPLs.

REPRESENTATIVE SAMUELS made a motion to approve RPL 06-06-0264, Department of Health and Social Services, Substance Abuse Prevention and Early Intervention Initiative.

[2:04:26 PM](#)

JANET CLARKE, Assistant Commissioner, Finance and Management Services, Department of Health and Social Services (DHSS), explained that the aforementioned RPL complies with legislative intent of the fiscal year (FY) 2005 operating budget. The intent outlined in chapter four of DHSS's operating budget asked the department to establish specific evidence-based prevention programs at the community level through a request for proposals

(RFP) for substance abuse prevention. Furthermore, the legislative intent requested the development of a clear plan for evaluation and program outcomes in order to better document the success of Alaska's efforts for substance abuse. Furthermore, it's required that the plan be presented to this committee prior to the 2006 session or at least by February 1, 2006, to the House and Senate Finance Committees. Upon approval of the plan, the intent outlined that up to \$2 million in Temporary Assistance to Needy Families (TANF) bonus funds could be awarded and available for alcohol and drug expansion related to prevention efforts. Therefore, what is before the committee today is the plan, as required by the intent, as well as an RPL to request the approval to receive and expend \$1.5 million of the TANF bonus funds. She noted that the committee packet should include a document entitled, "Behavioral Health Prevention and Early Intervention Initiative FY 06," which she said she would refer to as "the plan." Ms. Clarke explained that the plan outlines strategies, services, and outcomes related to substance abuse, prevention, and the early intervention initiative. The second page of the plan provides specific examples of successful programs and their performance measures and discusses what those programs do. The last part of the plan outlines the specific performance measures and how to evaluate programs that would be used to monitor any grant provided, based on the plan for local communities.

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MS. CLARKE specified that the RPL itself requests \$1.5 million in federal TANF funds and \$1.5 million in interagency receipts. The aforementioned allows the TANF funds to be spent in the department's substance abuse prevention program, and thereby expand community capacity such that prevention and early intervention services related to substance abuse, suicide prevention, and youth development can be provided in local communities. The RPL outlines some of the funds initially received and the process by which those were used. In the spring there was an RFP for which there was already \$2.9 million in the base budget. In response to that RFP there were 73 different proposals totaling approximately \$13 million. If the committee approved the \$1.5 million, the current FY 06 grantees would be reviewed with regard to their level of resource and reevaluate those receiving minimal funding. Then the FY 06 proposals that didn't receive any funding at all would be reevaluated and rescored with a new "PEC." The program initiative would also provide direct assistance through a

government-to-government contract with the Arctic Economic Development Summit.

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SENATOR GREEN opined that this seems a bit vague. Therefore, she said she would expect a report regarding what actually happened.

CRISTY WILLER, Director, Division of Behavioral Health, Department of Health and Social Services, explained that two-thirds of this proposal has to do with programs that were either underfunded or unfunded through the first RFP process. Whether the programs were funded or not, evaluation and outcome measures were built in to measure the success and effectiveness of the program. All grantees are required to file reports that will be compiled and presented to this committee on a regular basis and on demand. Ms. Willer highlighted that with prevention programs, the outcomes are long-term, although process measures can be utilized as well as reporting on the current effectiveness of the programs.

MS. WILLER, in response to Chair Therriault, specified that the \$1.5 million being requested is extended over this fiscal year. Therefore, the [division] will come before the [Finance] subcommittees for authorization for funding next June.

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REPRESENTATIVE HAWKER surmised that ultimately the \$1.5 million would be placed in existing community-based programs.

MS. WILLER replied yes, with the caveat that one of the programs, the Northwest and North Slope Boroughs partnership, exists although it hasn't formally applied for a grant from the division. The aforementioned is an extraordinary partnership that has been a joint effort of these two regions over the last few years. She noted that this partnership has the potential for widespread effectiveness in the region to build a holistic response to social and economic ills of the area.

REPRESENTATIVE HAWKER recalled the mention that this proposal addresses programs that were underfunded or unfunded during the last RFP process. However, he said he didn't recall a reduction in the Division of Behavioral Health's Budget.

MS. WILLER clarified that approximately \$13 million worth of prevention proposals were submitted during the last RFP cycle. One of the reasons for the extraordinarily high number of applicants this year is due to the concerted outreach effort of the prevention section to engage programs, agencies, villages, and regions that had never before applied. Furthermore, different sized communities were isolated so that small village programs wouldn't feel that they were competing against hub villages. Therefore, there were a large number of applicants. However, only \$3 million was available to spend on those applicants for prevention services and only three were funded to the extent requested, which she characterized as being unfunded. The remaining were not funded at all which left a great number of valuable projects, proposals, and partnerships unfunded.

REPRESENTATIVE HAWKER surmised then that this proposal expands the state's commitment to new programs. He asked if the legislature will, during the next budget cycle, be asked to sustain and increase its ongoing operating budget by the requested amount.

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MS. WILLER replied yes, but added that many of the programs aren't untested or even new but rather programs that have been funded by the division in the past through either treatment or prevention services. In further response to Representative Hawker, Ms. Willer specified that the division would like to see these programs continued with a permanent increase.

REPRESENTATIVE HAWKER opined that he was not sure that was the legislative intent. He recalled lengthy debate regarding the desire to [fund] programs for which one can empirically demonstrate work and thus continue successful modeling rather than embarking upon new and experimental measures.

MS. WILLER clarified that what was requested from these proposals and was received were not new or experimental in terms of being untested. She noted that all of them were required to fit into the substance abuse services administration structure of proven models with nationally supported initiatives and outcomes. Ms. Willer further clarified that these programs aren't risky, but didn't fall within the \$3 million that was allotted for these projects.

MS. CLARKE added that one of the things that may have been missing in the past with some of these prevention programs that

drew attention from the legislature was that [the division] didn't do a good job with regard to requiring results, outcomes, and performance measures. However, the requirements are now built into the grant proposals and the aforementioned information will be received and reported to the legislature.

[2:19:21 PM](#)

REPRESENTATIVE SAMUELS restated the motion to approve RPL 06-06-0264, Department of Health and Social Services, Substance Abuse Prevention and Early Intervention Initiative.

REPRESENTATIVE HAWKER objected, and said that this [RPL] really may not be moving where [the legislature intended]. He said that he didn't see the "nuts and bolts" of a substantive plan in order to ensure results for the money being spent. Therefore, he requested that [the division] take a serious look at the Division of Behavioral Health's grant program for results-based grant awarding because he did not want to have the grant program referred to as anachronistic again. Furthermore, Representative Hawker expressed concern that a program that hasn't received a substantive fix is being expanded. Representative Hawker removed his objection.

There being no further objection, RPL 06-06-0264, Department of Health and Social Services, Substance Abuse Prevention and Early Intervention Initiative, was approved.

[2:21:22 PM](#)

REPRESENTATIVE SAMUELS made a motion to approve RPL 10-06-5035, Department of Natural Resources, Alaska Trails Initiative.

[2:21:55 PM](#)

JERRY LEWANSKIE, Superintendent, Chugach State Park, Division of Parks & Outdoor Recreation, Department of Natural Resources (DNR), explained that the aforementioned RPL will amend an existing capital project for the National Recreation Trails Federal Program. The RPL would add federal authorization to allow DNR to accept Federal Highway Administration (FHWA) funds for the Alaska Trail Initiative, which will distribute these grant funds to eligible trails associations that were named within the Congressional records statement. He specified that these grant funds will be used statewide for trails and trail-related facility development, maintenance, and construction.

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MR. LEWANSKIE, in response to Representative Hawker, confirmed that the list provided to the committee is the list of entities in the original Congressional earmark.

REPRESENTATIVE HAWKER asked if any of the funds will go to Chugach State Park.

MR. LEWANSKIE specified that the original Congressional earmark named the Alpenglow Ski Area as a recipient of the grant money that will be in Chugach State Park. He recalled that the Outdoor Trail Advisory Board (ORTAB) recommended that a portion of the funds be administered/managed by Chugach State Park.

REPRESENTATIVE HAWKER pointed out that the list doesn't specify either Alpenglow Ski Area or Chugach State Park.

MR. LEWANSKIE offered his understanding that [those two entities] were specifically listed in the Congressional earmark, although it's [now] specified as the Division of Parks & Outdoor Recreation. He opined that the listing occurred as he explained because the Alpenglow Ski Area couldn't accept the funds and thus ORTAB recommended awarding the funds to the Chugach State Park to be used in the Alpenglow Ski Area in order to fulfill the original intent of the federal earmark. In further response to Representative Hawker, Mr. Lewanski confirmed that [the money earmarked for Alpenglow Ski Area] would be the only money in this RPL going to Chugach State Park.

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MR. LEWANSKIE, in response to Chair Therriault, offered his understanding that [the committee packet] contains a copy of the Congressional earmark, which will amend an existing capital project.

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ANNA KIM, Legislative Fiscal Analyst, Legislative Finance Division, confirmed that the document in the committee packet is a page from the "Summary of Appropriations" that shows that the National Recreation Trails Federal Program has been appropriated. The agency merely wants to amend that for the federal capital money.

REPRESENTATIVE SAMUELS asked if, amongst those listed in the RPL, it's predetermined on a percentage basis or [does each entity] apply separately.

MR. LEWANSKIE offered his understanding that [the funding] was apportioned according to the original request to U.S. Senator Ted Stevens. In further response to Representative Samuels, Mr. Lewanskie said that the decisions have been made by ORTAB and further said that those recommendations will be fulfilled.

[2:27:22 PM](#)

REPRESENTATIVE SAMUELS restated the motion to approve RPL 10-06-5035, Department of Natural Resources, Alaska Trails Initiative. There being no objection, RPL 10-06-5035 was approved.

EXECUTIVE SESSION

[2:27:52 PM](#)

REPRESENTATIVE SAMUELS made a motion to move to executive session for the purpose of discussing confidential audit reports under AS 24.20.301. There being no objection, the committee went into executive session at 2:27 p.m.

[3:15:42 PM](#)

CHAIR THERRIAULT called the committee back to order at 3:15 p.m. Upon reconvening present were Senators Therriault, Ben Stevens, Hoffman (via teleconference), Stedman (via teleconference), and Wilken, and Representatives Samuels, Chenault (via teleconference), Hawker, and Joule. Senator Green arrived as the reconvened portion of the meeting was in progress.

RELEASE OF AUDITS

REPRESENTATIVE SAMUELS made a motion for the preliminary audits for the Department of Public Safety, CDVSA and the Alaska Court System Board of Governors, Alaska Bar Association to be released to the appropriate agency for response. There being no objection, it was so ordered.

REPRESENTATIVE SAMUELS made a motion for the final audits for the Board of Examiners in Optometry, the Board of Chiropractic Examiners, and the State Physical Therapy and Occupational Therapy Board to be released to the public. There being no objection, it was so ordered.

OVERVIEW OF PERMANENT FUND CORPORATION REGULATIONS

[3:17:20 PM](#)

CHAIR THERRIAULT announced that the next order of business would be the overview of the Alaska Permanent Fund Corporation (APFC) regulations, which elicited some general discussion at the last meeting. With regard to the APFC Board's confidentiality powers, Chair Therriault noted that those powers have been in place for some time. However, he said he understood that the recent regulations provided specifics with regard to the board's confidentiality powers.

MICHAEL BURNS, Executive Director, Alaska Permanent Fund Corporation, Department of Revenue, relayed that absolutely no new level or degree of confidentiality is created by [these regulations]. Mr. Burns then read the statutes that were enacted when the APFC was created in 1980, as follows: "Information in the possession of the corporation is a public record, except that information that discloses the particulars of the business or affairs of a private enterprise or investor is confidential and not a public record. Confidential information may be disclosed only for the purpose of an official law enforcement investigation or when its production is required in a court proceeding." He also pointed out that the state specifies that the board may adopt regulations to interpret and implement the chapter, although he said he didn't believe it's been done before.

MR. BURNS explained that the new legislation allows the [APFC Board] to use the expedited power with regard to the confidentiality and investment regulations. The regulations include, he noted, the points in the aforementioned statute as well as the requirements of the open meeting law.

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MR. BURNS highlighted that the only change is that the APFC Board delegated the power to "make those determinations" to the executive director. He explained that there are the following three asset categories: real estate, private equity, and absolute return. He explained that the strategy of the managers is the proprietary product and what is requested to be kept confidential. Included in both asset classes is a gatekeeper who seeks partnerships. He pointed out that who has access to what fund is the determinant of success for both the [private

equity and absolute return] asset classes. Therefore, [the APFC] is attempting to accommodate [that need for confidentiality] while being as transparent as possible. In fact, today [the APFC] answered its first freedom of information request and he recalled that dollar amounts to the partnerships and the percentages were withheld. Mr. Burns informed the committee that under the absolute return category, [the APFC] is invested in about 40 partnerships with 12 different strategies. How the gatekeeper shifts those is his/her business, he opined.

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MR. BURNS turned to the private equity category and relayed that who has access to what funds is very important [to be kept confidential] and should be accommodated. It's also important, he said, to keep in mind that the bulk of returns are in the top tier, which is proprietary information.

CHAIR THERRIault commented that he has viewed this as a further maturation of a very healthy investment vehicle for the state.

MR. BURNS explained that the intent with these regulations is to provide descriptive flexibility such that it's clear what [the APFC] may do. He noted that the regulations and statutes have moved away from the numbers on asset classes. Furthermore, asset classes have been authorized. He informed the committee that only in three areas, which are new to [the APFC], is there a numerical limitation. Those three areas and caps are as follows: international real estate - 5 percent; development real estate - 5 percent; and nonrated securities - 15 percent. The other set of asset classes addressed statutorily have no [numerical limitations].

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MR. BURNS relayed that members' packets include a flow chart of each asset class. He said that the right-hand column is "where you will see the trustees actually doing their governing." The hope is that these regulations will be time-tested and allow enough flexibility that amendments won't be necessary. Mr. Burns noted that currently strategies are used. However, trying to define a strategy is more difficult than defining the asset classes because there is no way to list all of the strategies, which are constantly being created. Therefore, any asset that is approved under the regulations is approved in combination with any other asset. Mr. Burns posited that APFC has succeeded in a balance between the minimalist approach and the

comprehensive approach, although [the board] has erred on the comprehensive side.

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SENATOR STEDMAN inquired as to how the 5 percent cap on an asset class would work if there is appreciation that exceeds [5 percent].

MR. BURNS answered that previously, when the APFC ran into a statutory limitation, it measured those. He explained that the two asset classes with the 5 percent [cap] and the 15 percent [cap] are done by resolution and the APFC would move to adjust those balances. However, he said he didn't see that as an issue for some time because not much is being allocated to those at the moment. With regard to private equity, he informed the committee that there is about a 4 percent allocation, which is about \$1.2 billion. Furthermore, the APFC has commitments [to entities] totaling about \$600 million, of which [those entities] have committed \$300 million. He characterized [private equity] as a slow process. He explained that the characteristics of private equity are very similar to public equity, and therefore while money is waiting to be called on in the private equity class, the money will be held in the public equity market.

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SENATOR STEDMAN posed a situation in which one enters the private equity arena or other non-liquid arenas with a long time horizon on the holding with minimal cash flow. As the weighting of the overall portfolio gets heavier, he surmised that there would be downward pressure on the dividend structure to the citizens.

MR. BURNS agreed, adding that the APFC, in comparison to other investment funds, has the advantage of being able to be patient. He highlighted that one of the challenges with private equity is that the potential rewards aren't liquid and there isn't any indication of when they might become liquid. For a fund with real liquidity challenges, it's difficulty to partake in excess returns. Mr. Burns stated that liquidity isn't the problem, and therefore [APFC] should be able to participate in these types of investments, although they don't match up well with a realized income distribution formula. Mr. Burns opined that the distribution formula is the only missing piece.

[3:33:48 PM](#)

MR. BURNS opined that the aforementioned asset classes are so small at this point that they won't starve the dividend formula. However, he acknowledged that they don't match with the statutes specifying that the trustees are to invest for maximum return at minimal risk. He stated that the trustees invest for total return.

CHAIR THERRIAULT reminded the committee that this committee is the link between the APFC trustees and the legislature.

DNR NAVIGABLE WATERS RSA

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CHAIR THERRIAULT announced that the next order of business would be an overview of the Department of Natural Resources' navigable waters reimbursable services agreement (RSA).

JOE BALASH, Staff to Senator Therriault, Alaska State Legislature, informed the committee that for each of the past two years the Legislative Budget and Audit Committee has entered into an RSA with two agencies, DNR and Alaska Department of Fish & Game (ADF&G), to conduct research related to submerged lands and R.S. 2477 history. Earlier in the year, the committee approved a contract with ADF&G that covers current fiscal year (FY), 2006. Since that time the committee has had discussions with DNR, which has submitted a request that would use the bulk of the remainder of the funds available to the committee.

CHAIR THERRIAULT highlighted that the total request is for \$45,000.

DICK MYLIUS, Acting Director, Division of Mining, Land and Water, Department of Natural Resources, relayed that most of the \$45,000 would continue work that was started under the RSA with the committee last year. The funds would allow the completion of the historical research on the two R.S. 2477 routes on the Cold Foot to Chandalar and the Cold Foot to Carrol (ph) routes. The aforementioned would cost \$15,000 and is necessary to submit to the court. Furthermore, a project to scan all the original R.S. 2477 files was started and the concept was to house the original documents more securely in the title section under lock and key and have the copies available to the regional offices. The aforementioned would cost \$40,000, but [the department] was able to find some operating fund money for that and thus the portion from this request would only be for \$10,000. The third

item is for \$20,000 to pay the Bureau of Land Management for the processing fees for the department's recordable disclaimer applications, which amounts to approximately \$5,000 per application. The department has some money for that in its operating budget, but the department anticipates there will be more fees than the department has money for in this fiscal year.

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REPRESENTATIVE SAMUELS made a motion that the chair be authorized to enter into a contract with the Department of Natural Resources for R.S. 2477 and navigable waters research for FY 06 in an amount not to exceed \$45,000. There being no objection, it was so ordered.

FOSLER LAW GROUP CONTRACT

[3:39:40 PM](#)

CHAIR THERRIAULT announced that the next order of business would be the Fosler Law Group contract regarding the litigation stemming from the Wood Mackenzie report, which was held confidential according to the terms of the purchase agreement.

MR. BALASH reminded the committee that the contract was entered into in response to litigation brought forth by the Republican Moderate Party Inc. in June of this year. The expectation was that it would be a fairly quick process and exchange of motions for summary judgment, with a ruling from the judge to follow. The plaintiffs expressed a desire to resolve the litigation quickly in order to aid their efforts in circulating a petition initiative to repeal the economic limit factor (ELF). Under the aforementioned scenario, the \$25,000 cap was expected to be adequate. However, following the exchange of motions and briefs, the plaintiffs have requested oral argument at the end of September. Therefore, those oral arguments will require additional funds.

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MR. BALASH, in further response to Senator Ben Stevens, specified that the plaintiff, the attorney for the Republican Moderate Party Inc., is Kevin Morford (ph).

REPRESENTATIVE SAMUELS asked if "we" have to apply to have it denied or does the judge simply rule.

MR. BALASH offered his understanding that once the process is complete and assuming the plaintiffs have won on some term, the plaintiffs will present a motion for reimbursement for full costs. However, if the plaintiff didn't win on any grounds, the committee would have the opportunity to seek reimbursement for its costs at which point the plaintiff could plead public interest status and request immunity from the reimbursement charge.

REPRESENTATIVE SAMUELS asked if there are motions or direction from the committee that the committee's legal counsel has to file to receive reimbursement or is it assumed that such is sought.

MR. BALASH said that he could query legal counsel on this. However, he understood the contract with the Fosler Law Group to specify that the law group takes direction from the project director.

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SENATOR BEN STEVENS recommended that legal counsel intervene to object to the public interest litigant status claim.

CHAIR THERRIAULT pointed out that with this additional request of \$25,000 the total would be \$50,000, which he noted is the average salary for a teacher in the State of Alaska.

MR. BALASH agreed.

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SENATOR BEN STEVENS reiterated that the legal counsel should oppose the motion to grant the public interest litigant status to the plaintiff, which is a motion that has to be granted by the court. He also suggested that if the committee wins, it could obtain reimbursement of the expenses from the plaintiff.

MR. BALASH informed the committee that briefs have pointed out that the plaintiff has the ability to purchase this study any time it so desires. The only purpose [the plaintiff] can obtain from litigation is to avoid paying for the study, which would arguably be a private interest as opposed to a public interest.

REPRESENTATIVE SAMUELS made a motion to authorize the chair to amend the committee's contract with Fosler Law Group in an amount not to exceed \$50,000 for work related to litigation over

the confidentiality of the Wood Mackenzie Global Oil & Gas Risks and Rewards 2004 Study. There being no objection, it was so ordered.

OTHER BUSINESS

[3:45:58 PM](#)

CHAIR THERRIAULT announced that the final order of business would be a request for an audit from Representative Guttenberg.

[3:47:05 PM](#)

PAT DAVIDSON, Legislative Auditor, Division of Legislative Audit Alaska State Legislature, in response to Chair Therriault, said that she has had conversations with Representative Guttenberg. She related that the division's ability to perform the requested audit in an informal manner is severely limited because it concerns a grantee of the state in terms of how it spent the state's money. She noted that she has specifically asked Representative Guttenberg to identify the time period of interest. She then offered her understanding that there has been an audit effort in the organization, and therefore the division will build onto work already done.

CHAIR THERRIAULT inquired as to the length of an audit queue at this time.

MS. DAVIDSON pointed out that the committee members' packets should include a list of the status of audits. Currently, three audits have been requested that have not yet been started, one of which is the Special Education Service Agency with a due date of January 2008. Furthermore, staff won't be done with the statewide single audit until the end of March or April. Therefore, [further] requests would have a start date of April 2006.

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REPRESENTATIVE HAWKER asked whether the Fairbanks Economic Development Corporation is already subject to external audits on these grants.

MS. DAVIDSON answered that from the state the amount received by the [Fairbanks Economic Development Corporation] is less than the \$300,000 threshold that triggers the state compliance audit. She related that it appears that in FY 05 and FY 06, the agency

received funds from the Department of Transportation & Public Facilities and Department of Commerce, Community, & Economic Development and a minimal amount from the Department of Natural Resources, of which none meets the \$300,000 threshold.

MR. HAWKER asked if any of those grants have an audit requirement.

MS. DAVIDSON clarified that typically the grants fall to the statewide single audit to coordinate those efforts.

REPRESENTATIVE HAWKER asked if there has been any indication that there has been a misspending of money.

CHAIR THERRIAULT characterized it as a murky issue with details continuing to arise. He questioned whether answers will arise through the ongoing process in Fairbanks.

MS. DAVIDSON related that the discussions with Representative Guttenberg were in regard to what he wanted to know, such as how much money was received by the Fairbanks Economic Development Corporation over the time period. The aforementioned was of interest as was how the money was spent and whether it was spent in compliance with grant requirements. She agreed that what's playing out in the newspapers right now will benefit the audit not starting until April because certain things would be worked through.

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CHAIR THERRIAULT asked whether Ms. Davidson would return to the committee before automatically moving forward on this audit or would the division wait to hear from the committee as to whether to move forward if things have been sorted out prior to April.

MS. DAVIDSON pointed out that if she has an audit request the information has to be provided. However, without an audit request the entity may or may not have to respond. If the audit request is approved, it may take staff a short amount of time to access the current status.

REPRESENTATIVE SAMUELS noted his assumption that if the organization receives federal money, the federal government would perform an audit as would any other entity from which the organization receives money. Therefore, he inquired as to where the state falls in relation to the revenue streams of this organization.

MS. DAVIDSON said she could not answer that question at this time.

REPRESENTATIVE DAVID GUTTENBERG, Alaska State Legislature, offered to answer questions.

CHAIR THERRIAULT acknowledged that Representative Guttenberg has some legitimate questions. He related the option of providing the division the authority to start the audit with the sideboard that before the expenditure for the audit occurs, the division would come before the committee to update it regarding the information available at that time to determine whether to proceed.

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REPRESENTATIVE GUTTENBERG agreed that such would be appropriate. He opined that his concern was that after the audit from the City and Borough of Fairbanks might result in a component being left out. However, the division having the authority to perform an audit, whether it actually is or not, is significant.

SENATOR WILKEN surmised that the bigger issue is how the money, which he estimated to be about \$10,000-\$20,000 has been spent. Senator Wilken concurred with seeing how the various audits of the Fairbanks Economic Development Corporation come out before moving forward on the audit.

REPRESENTATIVE SAMUELS made a motion that the committee approve the special audit request on the Fairbanks Economic Development Corporation.

CHAIR THERRIAULT made a motion to amend the motion such that before the division moves forward on any major expenditures on this audit that the division reports to the committee on the status of the situation. There being no objection, the motion was amended as stated.

There being no objection to the motion as amended, the special audit request on the Fairbanks Economic Development Corporation was approved.

MS. DAVIDSON relayed that the division is requesting that the committee increase its authority to contract for audit services. She reminded the committee that originally it had authorized the division to contract for an amount not to exceed \$150,000 for

audit services to help with the statewide single audit, primarily the federal compliance piece. The division is practically through the analysis of the federal schedule. It appears that there will be three or more major federal programs this year. Major federal programs require a substantial amount of work and thus require more audit resources to complete the audit. With the additional amounts of money, the division will attempt to negotiate extended hours to those already providing services. Therefore, this is merely an amendment to increase the amount to contract, she explained.

4:03:18 PM

CHAIR THERRIault surmised then that the division's authority would be increased by \$30,000 to continue the aforementioned work.

REPRESENTATIVE HAWKER inquired as to who the current contracts are with.

MS. DAVIDSON answered that they are Altman Rogers and Elgee Rehfield. She explained that the contract was let based on a certain level of experience of staff and the price per staff. Therefore, the specific contract is for a specific person for a specific time period. In further response to Representative Hawker, Ms. Davidson said that this would allow the division to determine whether the current contractors have sufficient resources. She explained that she wanted to make sure the committee was supportive of this before inquiring as to whether the firms could do it or not.

REPRESENTATIVE SAMUELS made a motion to authorize the legislative auditor to amend the contract for audit services in an amount not to exceed \$185,000. There being no objection, it was so ordered.

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 4:05 p.m.